

Donohue Inc.



Revised August 5, 1986 (IC)

Destroy all previous Basic and White cards on this Company

CUSIP Number 258041

Stock Symbol DHC

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THE COMPANY is a major Canadian integrated forest products organization which, directly and through subsidiaries, is engaged in the managing and harvesting of timber resources and the production and sale of newsprint, market pulp and lumber. Operations are conducted solely in the province of Quebec.

Fiscal Year	Total Assets	L-term Debt	COMPARATIVE DATA					Earns. Per Sh.	Divds. Paid	Price Range	
			Shldrs.' Equity	Net Sales	Net Inc. Oper.	High	Low				
			000's								
	\$	\$	\$	\$	\$		— Common Shares —				
1985....	711,792	300,537	235,987	424,971	20,673	1.54	0.72	19.75	15.00		
1984....	671,054	295,529	190,032	438,613	30,288	2.28	0.695	17.75	11.38		
1983....	606,783	290,593	168,115	357,342	9,374	0.91	0.50	13.07	9.50		
1982....	570,392	282,505	121,330	315,296	16,463	1.79	2.53	15.19	8.00		
1981....	537,184	247,831	127,812	289,882	24,857	6.82	0.70	17.50	11.00		

▲Adjusted throughout for 2-for-1 split, effective Oct. 15, 1984.

CONSOLIDATED CAPITALIZATION AS AT DECEMBER 31, 1985			
	Outstanding		%
Long-term debt		\$300,537,000	56
Preferred stock	140,800 shs.	3,520,000	1
Common stock	15,324,049 shs.	109,275,000	20
Retained earnings & contributed surplus		123,192,000	23

SUMMARY STATEMENT

For the year ended Dec. 31, 1985, net income dropped 32% on a sales decrease of 3%. The 1985 results were adversely affected by modest economic growth in North America and Europe and by aggressive competition in the pricing of lumber, pulp and newsprint. Net earnings were also reduced by approximately \$4,200,000 following a change in accounting policy regarding investment tax credits.

New financing was completed on Dec. 19, 1985, with the issue of 2,015,000 common shares at \$17.375 per share for \$35,000,000. The company's major shareholder, Dofor Inc. of Montreal, purchased 55% of the issue to maintain its controlling interest. Proceeds from the issue are to be used to finance in part the construction of the Clermont newsprint machine (see below). In addition, on Jan. 3, 1986 the company borrowed \$35,000,000 at LIBOR rate plus 5%, also in connection with, the modernization of the Clermont paper mill.

A \$170,000,000 newsprint machine will be built by subsidiary Donohue Malbaie Inc. (65% owned by Donohue; 35% by The New York Times) at the Clermont, Que. paper mill. The new machine, with an annual capacity of 180,000 tonnes of newsprint, will be completed by late 1987 and will replace an existing 40,000-tonne machine.

Capital expenditures during 1985 totaled \$78,979,000 and included \$62,976,000 for the completion of the thermomechanical pulp mill and \$1,477,000 towards the new newsprint machine, both at the Clermont mill.

HOWARD ROSS, LIBRARIAN
OF MANAGEMENT

N.B.—For quick reference data, see page 2.

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QUICK REFERENCE DATA

Major Shareholders—In April, 1986, Dofor Inc. held approximately 55.5% of the common shares. Dofor is owned by Société générale de financement du Québec.

Employees—In May, 1986, the company had approximately 3,000 employees.

Incorporation—Quebec charter, March 30, 1920.

Auditors—Samson, Bélair, C.A., Quebec, Que.

Fiscal Year Ends—December 31.

Annual Report Appeared—In April in 1986.

Annual Meeting—April 29 in 1986.

Listed—DHC, Montreal and Toronto Stock Exchanges.

Shareholders—In April, 1986, there were approximately 1,800 shareholders.

Transfer Agents and Registrars—Trust Général du Canada, Montreal; Montreal Trust Company, Toronto, Winnipeg, Regina, Calgary and Vancouver.

COMPANY

Directly and through subsidiaries, the company is engaged in the manufacture and sale of newsprint, market pulp and lumber and in the managing and harvesting of timber resources. Operations are conducted from two newsprint mills, one market pulp mill, four sawmills and seven logging camps located in the province of Quebec. Approximately 72% of the company's sales are made to customers in the United States and 7% in Europe with the balance sold in Canada.

OPERATIONS

Newsprint—Newsprint operations are conducted by the company and its subsidiaries from newsprint mills located at Clermont and Amos, Que.

At Clermont, Que., the company and subsidiaries, Donohue Charlevoix Inc. and Donohue Malbaie Inc., operate a market pulp mill and four newsprint machines having a total annual production capacity of 250,000 tonnes. The thermomechanical pulp mill which was completed in 1985 supplies all the pulp requirements for the four machines. Wood supply requirements are presently filled by timber taken from Crown concessions and domainial forests in central Quebec and by purchases of wood and wood chips on the open market.

At Amos, Que., Donohue Normick Inc., owned 58.1% by the company and 41.9% by Normick Perron Inc., operates a newsprint mill with an annual production capacity of 160,000 tonnes. The Amos newsprint mill produces high quality newsprint using only thermo-mechanical pulp produced at the Amos mill. Approximately 60% of the Amos mill's wood fibre requirements are obtained from an adjacent sawmill operated by 49%-owned J. E. Therrien Inc. and the balance is obtained from other sawmills in Quebec.

Approximately 40% of the company's newsprint production capacity is sold to the minority shareholders of Donohue Charlevoix Inc. and Donohue Malbaie Inc. and the balance of its exported newsprint is marketed through the company's exclusive sales agent, Donohue Paper Sales Corporation, in which the company has no equity interest. About 95% of the company's total production of newsprint is sold in the United States.

1985 Operations—Shipments from Canadian newsprint mills decreased marginally from the 1984 level to total 9,000,000 metric tons. Shipments to the U.S. market totaled 6,700,000 tonnes and to the Canadian market 1,035,000 tonnes. Newsprint production at the

Clermont facility totaled 221,509 metric tons compared with 228,452 for the previous year. The decrease was due in part to the loss of production in start-up of the new thermomechanical pulp mill and to work stoppages in the second quarter. The thermochemical mill was completed in October, 1985.

In November, 1985, the company announced plans for a new \$170,000,000 paper machine at Clermont with a rated annual production capacity of 180,000 tonnes. Production of newsprint at the Amos, Que. mill rose 5% during the year to 162,659 metric tons.

Lumber—Through Donohue St-Félicien Inc., the company operates four sawmills in the Lac St-Jean region of Quebec at Parc Chibougamau, Girardville, St-Thomas Didyme and Notre-Dame-de-la Doré. These sawmills can produce lumber and wood chips in varying proportions to suit the market and are capable of drying approximately 60% of the company's total lumber production capacity. The wood chips produced by these sawmills supply the market pulp mill at St-Félicien with almost all of its wood fibre requirements. Approximately 60% of the lumber produced is sold in the United States and the balance is sold in Canada.

1985 Operations—The company produced 293,914,000 fbm of lumber in 1985, down 8% from 1984. This reduction was forced by an oversupply in the market. Capital expenditures of \$1,250,000 improved the quality of the lumber and achieved a better wood yield. Approximately 70% of the wood chip requirements of the mill are supplied by the J. E. Therrien mill.

Market Pulp—Through 55%-owned Donohue St-Félicien Inc., the company operates a market pulp mill at St-Félicien, Que. having an annual production capacity of 280,000 tonnes. The mill manufactures a high quality pulp using black spruce as the main wood fibre. The market pulp, used in the manufacture of paper, is sold in the U.S., Canada and Europe under an agency agreement with Mead Pulp Sales Inc.

1985 Operations—A total of 275,983 tonnes were shipped from the St-Félicien mill in 1985, with inventories on hand at year end of 28,905 tonnes. Selling prices continued to be low due to overproduction. Shipments to world markets were as follows: 39% in Canada; 38% to the U.S.; and 23% to European markets.

Logging—Logging operations are carried out at the company's seven logging camps to supply wood products for operations at the St-Félicien and Clermont, Que. mills. The company holds approximately 36,000 sq. km. of forest land in Quebec under provincial Crown concessions and wood supply agreements, which grant timber cutting rights according to government regulations conditional on the payment of annual ground rent and stumpage charges.

1985 Operations—Logs delivered from the company camps to sawmills in the Lac St-Jean area totaled 1,507,000 cubic meters while 266,000 cubic meters were delivered to the Clermont newsprint mill. Some 71% of log harvesting operations are now mechanized. Capital expenditures of \$1,100,000 went to replace logging equipment, construct a garage at Camp Baichois in the Chibougamau area and to improve the communications system. In the Charlevoix woodlands new roads were built and additional equipment acquired.

PRODUCTION

Newsprint production has been as follows in recent years:

Year	Tonnes	Year	Tonnes
1978	179,600	1982*	319,192
1979	127,800	1983	368,713
1980	229,100	1984	383,366
1981	239,500	1985	384,168

*No production from Oct. 20, 1978 to June 1, 1979.

*Includes output of mill at Amos, Que. from March.

Production of market pulp has been as follows:

Year	Tonnes	Year	Tonnes
1979	229,600	1983	282,693
1980	265,200	1984	291,811
1981	271,300	1985	289,970
1982	246,464		

Lumber production has been as follows:

Year	000's bd. ft.	Year	000's bd. ft.
1978	138,500	1982	147,032
1979	125,000	1983	278,997
1980	151,800	1984	318,713
1981	142,600	1985	293,914

CAPITAL EXPENDITURES

Capital expenditures, including construction in progress, in recent years have been as follows:

1976	\$36,445,068	1981	\$124,752,000
1977	94,594,670	1982	94,800,000
1978	108,211,000	1983	14,837,000
1979	13,566,000	1984	65,253,000
1980	40,983,000	1985	78,979,000

Capital expenditures in 1985 included \$62,976,000 for completion of the thermomechanical pulp mill and \$3,500,000 for purchase of more modern equipment, including a clarifier and a smoke purifier on the bark burning boiler which improved environmental conditions. In November, 1985, the company announced plans for a \$170,000,000 new paper machine at Clermont with an annual rated capacity of 180,000 tonnes. To Dec. 31, 1985, \$1,477,000 had been expended on this project. Additional capital expenditures in 1985 included: \$1,604,000 at Amos to acquire spare parts, install a sheet humidifier control system and set up workshop space for the preparation of newsprint roll cuts; \$1,100,000 to construct a garage at Camp Bachois in the Chibougamau area, replace logging equipment and improved communications; additional sums were spent in the Charlevoix woodlands to build roads and acquire additional equipment.

HISTORY

The company was incorporated under Quebec charter on Mar. 30, 1920, under the name Murray River Power & Pulp Co. Ltd. to take over the assets and business of Donohue Brothers Reg'd. The company's name was subsequently changed to Donohue Brothers Limited in 1921.

In 1959, Donohue Brothers Limited agreed to purchase all the shares of Nairn Falls Pulp Co. Ltd. for \$84,672. Nairn Falls was previously controlled by persons who were large shareholders and officers of Donohue Brothers. It was engaged in the production and sale of groundwood pulp, using equipment installed for that purpose within the Donohue Brothers mill.

In 1967, Charlevoix Paper Company Limited was incorporated to operate a newsprint mill on the company's Clermont property.

In June, 1969, F-I-C Fund Inc. of Montreal made a bid to acquire controlling interest of the company through the purchase of not less than 900,000 outstanding common shares at \$12 per share. However, the bid was unsuccessful as only 278,481 common shares were deposited; these shares were returned to the depositors.

In September, 1969, an agreement was reached between the company and The New York Times Company to acquire and operate one of Donohue's existing newsprint machines at Clermont.

Effective June, 1970, the company's name was changed from Donohue Brothers Limited to The Donohue Company Limited.

By an agreement made in September, 1973 and completed in January, 1974, the company acquired all the issued capital stock of Produits Forestiers M.P. Inc. for \$2,763,000, of which \$1,363,000 was payable on completion date and the balance of \$1,400,000 in seven equal annual instalments without interest.

In July, 1975, Donohue St.-Félicien Inc. was formed, which is 55% owned by the company and 45% owned

by British Columbia Forest Products Ltd., to construct and operate a \$300-million bleached kraft pulp mill and wood products complex at St-Félicien, Que.

In early 1976, the company purchased the logging and lumber operations of La Scierie Normandin Inc. for approximately \$5,500,000, including a sawmill at Girardville, Que., and a planing mill at Normandin, Que., which were subsequently sold to Donohue St.-Félicien Inc. for \$5,500,000.

Also during 1976, the company sold Produits Forestiers M.P. Inc. and its subsidiary, Les Transports Darveau Inc., to Donohue St.-Félicien Inc. for \$2,863,000; and Donohue St.-Félicien acquired Chibougamau Lumber Ltée for \$7,800,000.

On Jan. 3, 1977, Produits Forestiers M.P. Inc., Les Transports Darveau Inc. and Chibougamau Lumber Ltée were wound up and their assets transferred to Donohue St.-Félicien Inc.

Effective July 8, 1978, the company changed its name from The Donohue Company Limited to Donohue Inc. Also in 1978, the company's subsidiaries, Charlevoix Paper Company Limited and Malbaie Paper Company Limited, changed their names to Donohue Charlevoix Inc. and Donohue Malbaie Inc., respectively.

Effective Sept. 7, 1979, the company and Normick Perron Inc. jointly formed Donohue Normick Inc., in which Donohue Inc. held a 51% interest. This company was established to build a newsprint mill at Amos, Que. On June 30, 1980, the company subscribed its share in Donohue Normick and acquired a 49% interest in J. E. Therrien Inc., a 51%-owned subsidiary of Normick Perron Inc.

In 1981, the name of Donohue Brothers Sales Corporation was changed to Marketing Donohue Inc.

In 1982, the company increased its ownership in Donohue Normick Inc. from 51% to 57.3%, as part of the financing arrangements relating to the construction of the Amos, Que. newsprint mill, for a consideration of \$1. By September, 1983, the company's interest in Donohue Normick Inc. had been increased to 58.1%.

By agreement dated Aug. 1, 1983, Société générale de financement du Québec acquired all of the common shares of the company held by La Cellulose du Pin, S.A., subject to certain conditions relating to the public offering of common shares, in September of 1983.

PRINCIPAL OPERATING SUBSIDIARIES

Marketing Donohue Inc.—Wholly owned. Handles majority of company's newsprint sales.

Donohue Charlevoix Inc.—55.4% owned by the company; 44.6% owned by Gannett Co., Inc. of Rochester. Owns one of the newsprint machines at the Clermont, Que. newsprint mill.

Donohue Malbaie Inc.—65% owned by the company; 35% owned by The New York Times Company. Operates two newsprint machines at the Clermont, Que. newsprint mill, of which one is owned and one leased. As part of the financing arrangements for the new thermomechanical pulp machine, the company's interest will drop to 51% and that of The New York Times will increase to 49% by Jan. 1, 1988.

Donohue St-Félicien Inc.—55% interest held by the company; 45% held by British Columbia Forest Products Limited. Operates a market pulp mill at St-Félicien, Que. as well as four sawmills and seven logging camps.

Donohue Normick Inc.—58.1% interest held by company; 41.9% held by Normick Perron Inc. Manufactures thermomechanical pulp and newsprint at a plant located at Amos, Que.

ASSOCIATED COMPANY

J. E. Therrien Inc.—49% owned. Engaged in logging operations and the manufacture of lumber and wood chips at a sawmill located at Amos, Que.

OFFICERS AND DIRECTORS

Officers—Louis-Gilles Gagnon, chm.; E. P. Walsh, pres. & chief exec. off.; W. C. Finley, exec. v-p; A. P. Marcoux, sr. v-p; Gerald Drouin, v-p, admin. & planning; J. A. Boucher, v-p, devel.; J. A. Fortin, v-p, forestry; P. D. Hamel, v-p, pulp & paper; Raymond Cournoyer, v-p, sawmills & woodlands; G. P. Lecours, v-p, fin. & treas.; A. R. Leger, v-p, customer services; Jacques Massicotte, v-p & sec.; Maureen Gurrie, asst. sec.; Marlene Kandalaf, asst. treas.

Directors—E. P. Walsh, J-P Tardif, Sillery, Que.; Pierre Martin, Ste-Foy, Que.; J.-P. Lortie, B. F. Clarke, Jacques Boucher, Montreal; Kevin Drummond, Huntingdon, Que.; Jacques Gelly, Brossard, Que.; L.-G. Gagnon, St-Bruno de Montarville, Que.; Richard Drouin, Rene Paquet, Quebec City, Que.; M. A. Meighen, Toronto; Michel Besson, Valley Forge, Pa.

CAPITAL STOCK

	Author.	Outstand.	Par
Preferred	260,000 shs.		\$25
6 1/4% Pref.		140,800 shs.	
Common	unlimited	15,324,049 shs.	n.p.v.

6 1/4% Preferred, 1967 Series—Entitled to fixed cumulative preferential cash dividends of \$1.56 1/4 per share per annum, payable quarterly on 1st day of Feb., May, Aug. and Nov. (approx.).

Redemption—Non-redeemable on or before Aug. 1, 1977, and thereafter at the option of the company on 30 days' notice at \$26 per share, plus accrued and unpaid dividends. The company may at any time purchase for cancellation the whole or any part of the 6 1/4% preferred, 1967 series shares, in the open market or by tender at prices not exceeding the redemption price plus cost of purchase.

In the event of liquidation, dissolution, etc., if voluntary, entitled to \$26 per share; if involuntary, to par; in each case plus accrued and unpaid dividends.

Purchase Fund—Commencing with the calendar year 1974, the company shall make all reasonable efforts to purchase for cancellation in the open market at a price not exceeding the then redemption price per share, plus costs of purchase, a number of 6 1/4% preferred shares equal to 3% of the aggregate principal amount of such shares issued.

Voting—Non-voting unless an aggregate of six quarterly dividends in arrears on any one series, when entitled to one vote per share and, as a class, to elect two directors until all arrears have been paid.

Ranking—Rank in priority to the common shares and pari passu with all other series of preferred shares with respect to the payment of dividends and distribution of assets.

Additional Shares—Except with approval of the shareholders, the company may not issue any additional preferred shares ranking in priority or pari passu with the 6 1/4% preferred shares, unless the average annual consolidated net revenue for two out of the three preceding fiscal years is at least equal to three times the annual dividend requirements on all preferred shares to be outstanding.

Other Provisions—Certain restrictions are placed upon the payment of dividends to shares ranking junior to the 6 1/4% preferred shares.

Purpose of Issue—Net proceeds to the extent of approximately \$4,060,120 invested in debentures and shares of the Charlevoix Paper Co. Ltd., and the balance of the proceeds (approx. \$1,688,630) applied to working capital.

Offered—240,000 shares in July, 1967, at \$25 per share to yield 6.25% by a group headed by Wood Gundy Securities Ltd.

Common—One vote per share.

PRICE RANGE OF STOCK

6 1/4% Preferred

Year	High	Low	Year	High	Low
1976	\$15.75	\$14.00	1981	\$17.00	\$12.50
1977	17.50	15.00	1982	18.50	11.00
1978	19.00	16.00	1983	16.00	13.25
1979	19.25	17.50	1984	16.75	15.00
1980	18.75	15.50	1985	18.75	16.50

Common

Year	High	Low	Year	High	Low
1976	\$11.00	\$7.25	1981	\$35.00	\$22.00
1977	10.00	7.63	1982	30.38	16.00
1978	18.00	8.25	1983	26.13	19.00
1979	17.88	14.38	1984	17.75	11.38
1980	29.00	15.50	1985	19.75	15.00

CHANGES IN CAPITAL STOCK

Upon incorporation as Murray River Power & Pulp Co. Ltd., authorized capital was 7,500 shares of \$100 par. By S.L.P. dated Oct. 17, 1921, the 7,500 shares were changed from \$100 par to no par value. On May 11, 1942, 7,500 noncumulative preferred shares of \$100 par were created. A total of 1,006 preferred shares was retired on June 3, 1942, 928 shares on July 24, 1943, 1,105 shares on July 19, 1944, 2,243 shares on July 19, 1945, 1,738 shares on May 4, 1946. On May 23, 1946, the remaining 420 preferred shares were cancelled.

On May 8, 1946, the 7,500 existing shares of no par value were subdivided into 150,000 shares of no par value.

In December, 1951, the shareholders approved a bylaw providing for the subdivision of each of the outstanding no par value shares into two no par value shares increasing the number of no par value shares outstanding to 300,000.

By S.L.P. dated April 1, 1957, each of the 300,000 authorized and issued common shares of no par value was subdivided into 2 common shares of \$3 1/2 par value each. In addition the authorized capital was increased by the creation of 300,000 common shares of \$3 1/2 par value.

In June, 1964, shareholders approved the following: the authorized 900,000 shares of \$3 1/2 par value, of which 600,000 shares were issued and outstanding, were converted into 900,000 shares without par value. The authorized and issued shares were then subdivided on a 3-for-1 basis into 2,700,000 shares of no par value authorized and 1,800,000 shares issued and outstanding. Following this, authorized share capital was increased by an additional 900,000 shares without par value to 3,600,000 shares of no par value.

On May 29, 1967 the authorized capital stock was increased by 500,000 preferred shares \$25 par value, issuable in series. In August 240,000 6 1/4% cumulative, redeemable preferred shares 1967 series were issued, bringing capital stock outstanding to 240,000 preferred and 1,800,000 common shares.

During 1976, shareholders approved the creation of an additional 2,000,000 common shares and the creation of 2,700,000 \$10 par value redeemable convertible preferred shares.

Convertible preferred shares were offered to common shareholders of record Aug. 10, 1976, on the basis of 1 1/2 preferred shares for each common share held. The offer expired Sept. 30, 1976, and all 2,700,000 convertible preferred shares were taken up.

Since 1974, 6 1/4% preferred shares redeemed were as follows for each year: 7,200 shares in 1974, 1975 and 1976; 7,400 shares in 1977, 9,400 shares in 1978; 7,400 shares in 1979; 11,900 shares in 1980; 12,700 shares in 1981; and 7,200 shares in 1982.

During 1981, 8,675 common shares were issued.

During 1982, all of the 2,700,000 outstanding convertible preferred shares were converted share-for-share into common shares and 10,245 common shares were issued.

Effective Sept. 2, 1983, the company was continued under the Companies Act (Quebec) and as a result the authorized number of preferred shares, \$25 par, was changed to 415,200, the authorized number of common shares became unlimited and the authorized convertible preferred shares, \$10 par, were cancelled.

On Sept. 28, 1983, 2,050,000 common shares were issued to the public at \$20.75 per share.

Also during 1983, the number of authorized preferred shares was reduced from 500,000 to 260,000 shares, 7,200 preferred shares were purchased for cancellation and an additional 11,320 common shares were issued. Capital stock outstanding at Dec. 31, 1983 comprised 155,200 preferred shares, 1967 series, and 6,580,240 common shares.

On Sept. 26, 1984, shareholders approved a 2-for-1 split of the common stock to take effect on Oct. 15, 1984. Also during the year, 7,200 6 1/4% preferred Series shares were purchased for cancellation for \$121,000 and 90,874 common shares were issued for cash.

In December, 1985, the company issued 2,015,000 common shares at \$17.375 per share for \$35,010,625. Dofor Inc. of Montreal maintained its controlling interest in the company by the purchase of 55% of the issue. Also during 1985 the company purchased 7,200 6 1/4% preferred 1967 series shares for cancellation.

Capital stock at Dec. 31, 1985, consisted of 140,800 6 1/4% preferred 1967 series and 15,324,049 common shares.

DIVIDENDS

6 1/4% Preferred—Entitled to fixed cumulative dividends of \$1.56 1/4 per share per annum, payable quarterly on 1st day of Feb., May, Aug. and Nov. (approx.). Initial dividend of 39 1/16 cents per share paid Nov. 1, 1967, and regularly quarterly since.

Common—Present rate of 72 cents per share per annum established with the quarterly payment of 18 cents per share on Dec. 3, 1984 (first following two-for-one stock split in October, 1984). Previously, a rate of \$1.00 per share per annum made with quarterly payments of 25 cents per share from March 1, 1983 to Sept. 4, 1984, inclusive.

The initial rate was \$1 per share per annum paid regularly quarterly from Sept. 1, 1946, to and including Dec. 1, 1951.

After a 2-for-1 stock split in Dec., 1951, quarterly payments of 30 cents per share were made from March 1, 1952, to and including March 1, 1957.

Following 2-for-1 stock split in 1957 quarterly payments of 15 cents per share were paid from June 1, 1957, to and including Dec. 1, 1960. Rate of 90 cents per share per annum was paid quarterly from Mar. 1, 1961, to and including June 1, 1962. Rate was increased to \$1 per share per annum paid quarterly from Sept. 1, 1962, to Dec. 2, 1963. Payments of 30 cents per share were paid Mar. 2 and June 1, 1964.

Following the 3-for-1 split in June, 1964, 10 cents per share was paid on Sept. 1, 1964, establishing a rate of 40 cents per share per annum which was paid regularly quarterly to and including March 1, 1971. A dividend of 7 cents per share was paid on June 1, 1971, and of 4 cents per share on Sept. 1, 1971. No payments were made subsequently to Sept. 1, 1972, when dividends were resumed with the payment of 7 cents per share; 7 cents per share was also paid on Dec. 1, 1972. A rate of 40 cents per share per annum was paid quarterly from Mar. 1, 1973 to Dec. 1, 1973, inclusive. On Mar. 1, 1974, payment of 15 cents per share was made. A rate of 80 cents per share per annum was paid quarterly from June 1, 1964 to Aug. 3, 1979. A rate of \$1 per share per annum was paid quarterly from Dec. 3, 1979 to Dec. 1, 1980, inclusive. A rate of \$1.20 per share per annum was paid quarterly from Mar. 31, 1981 to Dec. 1, 1981, inclusive; \$1.40 per share per annum was paid quarterly from Mar. 1, 1982 to Dec. 1, 1982, inclusive. A rate of \$1.00 per share per annum was paid quarterly from Mar. 1, 1983 to Sept. 4, 1983 inclusive.

Extra dividends have been paid as follows: 20 cents paid Dec. 30, 1963; 15 cents paid Jan. 21, 1958, Jan. 21, 1959, and Jan. 21 and Dec. 21 and Dec. 30 cents paid Jan. 19, 1957; 25 cents paid Jan. 19, 1956; 20 cents paid Jan. 19, 1955; and 50 cents paid on June 1 and Dec. 1, 1950, and June and Dec. 1, 1951. An extra of six cents per share was paid Dec. 1, 1972, 15 cents per share was paid Dec. 3, 1979, 20 cents per share Dec. 1, 1980 and 1981; \$3.65 per share on Mar. 1, 1982; and 14 cents per share on Dec. 31, 1984.

LONG-TERM DEBT

Long-term debt outstanding at Dec. 31, 1985, totaled \$300,537,000 including \$24,179,000 due in one year and \$31,000 debentures purchased in anticipation of future sinking fund requirements. Debt consisted of: \$4,445,000 in 7 1/4% sinking fund debentures, series A, due 1989; \$6,810,000 in an 11% term loan due 1992; \$1,450,000 in prime rate term loan due 1993; \$16,240,000 (US\$11,600,000) in loan at LIBOR plus %, due 1993; \$700,000 (US\$500,000) in loan at prime plus %, due 1993; and \$270,923,000 in subsidiary debt.

Annual instalments required on long-term debt for the next five years are as follows: \$4,022,000 and US\$14,398,000 in 1986; \$3,157,000 and US\$16,128,000 in 1987; \$5,737,000 and US\$16,121,000 in 1988; \$9,322,000 and US\$15,907,000 in 1989; and \$5,682,000 and US\$15,907,000 in 1990.

Also, on Jan. 3, 1986, the company borrowed \$35,000,000 (US\$25,000,000) at LIBOR plus %.

Details of debt as follows:

7 1/4% S.F. Debentures Series A:

Dated Aug. 1, 1967; due Aug. 1, 1989.

Principal and half-yearly interest (Feb. and Aug. 1) and premium, if any, payable in Canadian funds at any branch in Canada of the company's bankers, at the holder's option.

Authorized and issued, \$7,500,000; outstanding at Dec. 31, 1985, \$4,445,000.

Denominations—Debentures in coupon form in denominations of \$1,000 registrable as to principal only and in fully registered form in denominations of \$1,000 and authorized multiples thereof.

Trustee—The Royal Trust Co.

Redemption—The series A debentures will not be redeemable prior to Aug. 1, 1987 for other than sinking fund purposes, as part of a refunding operation having an interest cost of less than 7 1/4% per annum. Subject to the foregoing, the series A debentures are redeemable in whole or in part at any time, at the option of the company, on not less than 30 days' notice at the following percentages of principal amount, if redeemed during the 12-month periods ending Aug. 1:

1968 .. 107.25	1975 .. 104.80	1982 .. 102.35
1969 .. 106.90	1976 .. 104.45	1983 .. 102.00
1970 .. 106.55	1977 .. 104.10	1984 .. 101.65
1971 .. 106.20	1978 .. 103.75	1985 .. 101.30
1972 .. 105.85	1979 .. 103.40	1986 .. 100.95
1973 .. 105.50	1980 .. 103.05	1987 .. 100.60
1974 .. 105.15	1981 .. 102.70	

and thereafter to maturity at par; redeemable for sinking fund purposes at par; plus in all cases accrued interest to date of redemption.

Sinking Fund—Sufficient to retire \$235,000 principal amount of series A debentures on August 1 in each of the years 1973 to 1988 inclusive. The company will have the right to purchase series A debentures by tender or by private contract for sinking fund purpose or otherwise at any price not exceeding the current redemption price, plus costs of purchase. Debentures so purchased may be tendered to the trustee at par in lieu of sinking fund obligations.

Security—Direct obligation of the company secured, subject to prior charges securing first mortgage bonds of the company and certain minor exceptions, by a valid floating charge on all the undertaking, property, rights and assets, including immovable property of the company.

Additional Issues—Subject to the restrictions of the debenture trust deed, additional debentures may be issued without limitation in amount. The company will not issue any further bonds under the first mortgage bond trust deed.

Other Provisions—The company will restrict the payment of cash dividends and the redemption or purchase of capital stock subsequent to Dec. 31, 1966 to an amount not in excess of the consolidated net income earned subsequent to Dec. 31, 1966, and the proceeds of the issue of any shares (other than 6¼% preferred shares) subsequent to Aug. 1, 1967.

Purpose of Issue—Net proceeds to the extent of approximately \$6,368,000 used for the expansion of groundwood pulp facilities with the balance of approximately \$933,250 applied for the increase of working capital.

11½% Term Loan—Outstanding at Dec. 31, 1985, \$6,810,000, maturing in 1992.

Prime Rate Term Loan—Outstanding at Dec. 31, 1985, \$1,450,000, maturing in 1993.

Other Long-Term Debt—Also outstanding at Dec. 31, 1985, \$16,240,000 (US\$11,600,000) in loan at LIBOR plus ¾%, due 1993; and \$700,000 (US\$500,000) at prime plus ¾%, due 1993.

Subsidiary Long-Term Debt

Donohue Charlevoix Inc.—6¼% First Mortgage S.F. Bonds, Series A: Due Dec. 31, 1988. Issued \$7,500,000 payable in U.S. funds. Annual sinking fund requirements amount to \$368,000 per annum from 1973 to 1987. Outstanding at Dec. 31, 1985, \$918,000 (US\$656,000).

Donohue St-Félicien Inc.—Outstanding at Dec. 31, 1985, \$105,000,000 (US\$75,000,000) in 10%, series A first mortgage sinking fund bonds, due 1997, redeemable in U.S. funds; \$26,251,000 in 11½% series B, first mortgage sinking fund bonds, due 1997; and \$25,000,000 in 6% subordinated sinking fund debentures, due 1997.

Donohue Normick Inc.—Outstanding at Dec. 31, 1985, \$113,754,000 (US\$81,283,000) in first mortgage bonds at ¾% above prime, maturing in 1996 and payable in U.S. funds.

Accounting Change

For fiscal 1985, the company adopted a policy affecting the method of accounting for investment tax credits. As of Jan. 1, 1985, investment tax credits have been deducted from fixed assets rather than from income taxes. This accounting practice reduced the cost of fixed assets by \$18,488,000 and created a balance recoverable of \$11,711,000 for the unused portion.

INTERIM EARNINGS

Fiscal Year	Net Sales	Net Inc. Oper. 3 months	Earns. Per Com. Sh.†	Net Sales	Net Inc. Oper. 6 months	Earns. Per Com. Sh.†	Net Sales	Net Inc. Oper. 9 months	Earns. Per Com. Sh.†
	\$000's		\$—	\$000's		\$—	\$000's		\$—
1979 ..	24,952	341	0.08	59,188	2,221	0.58	117,513	7,680	2.07
1980 ..	64,323	6,663	1.83	133,476	12,594	3.46	207,849	19,893	5.47
1981 ..	74,100	6,612	1.82	150,595	12,887	3.54	226,246	24,857	5.30
1982 ..	77,666	6,888	▼0.76	160,868	10,162	1.12	233,773	11,379	1.24
1983 ..	82,933	d577	d0.07	174,118	1,011	0.10	263,510	3,283	0.34
1984 ..	104,294	5,337	0.40	223,269	12,817	0.97	326,124	19,576	1.48
1985 ..	110,807	6,289	0.47	216,346	10,446	0.78	318,047	14,283	1.07

†Adjusted throughout for 2-for-1 split, Oct. 15, 1984.

▼Convertible preferred shares all converted in early 1982.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Years Ended December 31

	1985 \$000's	*1984
Sources (Uses) of Cash:		
Cash from operations:		
Net income	20,673	30,288
Depreciation & depletion	27,455	27,521
Deferred charges	3,591	1,398
Deferred income tax	1,571	8,447
Minority interest	10,519	18,068
Equity income	965	592
Changes in current accounts	11,514	(6,352)
	76,288	79,962
Financing activities:		
Issue com. shs.	35,923	1,129
Costs sh. issue	(740)	....
Increase l.-t. debt	13,742	3,525
Reduce l.-t. debt	(22,018)	(11,968)
Dividends	(9,773)	(9,379)
Dividends, subsids.	(10,998)	(11,091)
Purchase pref. shs.	(128)	(121)
	6,008	(27,905)
Investment activities:		
Funds reserved for cap. expend.	(17,883)	....
Additions to fixed assets	(8,927)	(19,241)
Construction in progress	(64,616)	(46,012)
Start-up expenses	(5,436)	....
Gov't. grants	15,937	8,536
Investment tax credits	18,488	....
Investment tax credits recov.	(11,711)	....
Deferred inc. tax advantage	2,550	....
	(76,698)	(56,717)
Increase (decrease) in cash	5,598	(4,660)
Cash at beginning of year	77,258	81,918
Cash at end of year	82,856	77,258

*As shown in 1985 Annual Report.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Years Ended December 31

	1985	1984	1983	1982	1981	1980	1979
				\$000's			
Net sales	424,971	438,613	357,342	315,296	289,882	272,455	176,528
Less: Cost of sales	304,778	302,877	274,154	226,412	188,115	167,394	106,246
Sell & admin. exp.	15,927	17,058	15,032	11,066	9,263	7,159	5,507
Add: Invest. income	8,395	9,346	6,075	10,744	15,142	8,190	4,822
Net before deprec., etc.	112,661	128,024	74,231	88,562	107,646	106,092	69,597
Less: Depr., depl. & amort.	31,046	28,919	26,475	17,525	16,876	15,424	14,980
Int. on long-term debt	30,466	32,360	30,543	30,554	19,007	18,877	18,936
Income taxes: Current	17,421	9,350	5,150	14,341	15,361	13,060	8,682
Deferred	1,571	8,447	*2,797	*661	16,099	18,555	6,235
Minority interest	10,519	18,068	5,649	9,904	14,446	14,148	7,091
Add: Equity earns.	d965	d592	163	d436	d1,000	.....	.....
Net income	20,673	30,288	9,374	16,463	24,857	26,028	13,673
Add: Previous ret. earns.	112,222	91,313	87,214	93,776	71,717	48,146	36,585
Less: Preferred divs.	221	231	242	255	275	297	312
Common dividends	9,552	9,148	5,033	22,770	2,523	2,160	1,800
Retained earnings	122,382	112,222	91,313	87,214	93,776	71,717	48,146
Times Interest Earned:							
Before deprec. & depl.	3.70	3.96	2.43	2.90	5.66	5.62	3.68
After deprec. & depl.	2.68	3.06	1.56	2.32	4.78	4.80	2.88
Earnings per Share:							
Based on net income:							
Pref.: Times earned	193.54	t131.12	138.74	164.56	190.39	187.64	143.82
Common▲	\$1.54	\$2.28	\$0.91	\$1.79	\$6.82	\$7.15	\$3.71
Fully diluted§ .....	.....	.....	.....	1.79	2.73	2.86	1.49
▲Adjusted throughout for 2-for-1 split, Oct. 15, 1984.							
§As reported by the company, assuming full conversion of convertible preferred shares.							
Dividend Record:							
6¼% preferred	\$1.56¼	\$1.56¼	\$1.56¼	\$1.56¼	\$1.56¼	\$1.56¼	\$1.56¼
Common*	0.72	0.18+0.14	.....	.....	.....	.....	.....
Common .....	.....	0.75	1.00	1.40+3.65	1.20+0.20	1.00+0.20	1.00

*Following 2-for-1 split on Oct. 15, 1984.

CONSOLIDATED BALANCE SHEET, AS AT DECEMBER 31

	1985	1984	1983	1982	1981	1980	1979
	\$000's						
Assets							
Current:							
Cash & deposits	82,856	84,581	54,695	54,915	92,448	71,666	41,684
Accts. receivable	59,085	66,087	54,562	48,441	31,156	25,594	25,027
Income taxes recover.	4,325	4,538	2,513	.....	.....	.....	.....
Inventories*:							
Logs	27,712	40,835	37,187	32,091	40,922	33,878	37,555
Lumber & chips	17,654	15,936	12,546	11,579	8,018	5,920	5,134
Mkt. pulp & newsprint	13,499	7,559	9,232	12,428	8,294	3,744	3,666
Other materials	16,001	14,212	14,171	14,721	10,505	8,319	8,111
	221,132	233,748	184,906	174,175	191,343	149,121	121,177
Investments	23,648	8,797	34,545	14,587	23,698	32,911	18,860
Fixed assets:							
Land, bldgs. & equip.	586,426	498,559	483,452	475,555	291,238	327,281	313,626
Timber limits	5,666	5,666	5,657	5,658	5,607	5,571	5,508
Timber cutting rights	3,051	3,051	3,051	3,398	5,981	5,716	5,716
Less: Accum. deprec.	180,679	154,960	128,531	102,981	85,956	77,212	60,305
Grants, net	.....	.....	.....	.....	.....	47,306	50,042
	414,464	352,316	363,629	381,630	216,870	214,050	214,503
Construction in progress	1,477	46,526	6,017	.....	105,273	26,012	.....
Deferred charges	39,360	29,667	17,686	.....	.....	.....	.....
Invest. tax credits recov.	11,711	.....	.....	.....	.....	.....	.....
	711,792	671,054	606,783	570,392	537,184	422,094	354,540
Liabilities							
Current:							
Due to bank	.....	9,390	.....	10,103	.....	.....	.....
Accts. payable & accr.	46,591	44,305	38,176	37,126	34,006	28,413	26,502
Income taxes payable	4,812	6,475	.....	7,444	3,148	5,293	2,538
L.-t. debt due 1 yr.	24,179	22,003	11,955	10,750	10,210	1,287	937
	75,582	82,173	50,131	65,423	47,364	34,993	29,977
Deferred inc. taxes	55,462	56,441	47,994	50,791	51,452	35,353	16,798
Long-term debt:							
Term loans	25,200	10,875	7,830	8,260	8,650	9,000	9,000
7 1/4% s.f. deb.	4,445	4,680	4,915	5,150	5,385	5,620	5,855
Bal. due purch. sub.	.....	.....	.....	.....	.....	200	400
Subsid. debt	270,923	279,990	277,849	269,130	233,907	169,456	170,193
Less: Curr. amt. due	24,179	22,003	11,955	10,750	10,210	1,287	937
Debs. held for s.f.	31	16	1	35	111	244	244
	276,358	273,526	278,638	271,755	237,621	182,745	184,267
Minority interest	68,403	68,882	61,905	61,093	72,935	63,307	41,164
Shareholders' Equity							
Capital stock:							
Preferred, 1967 series	3,520	3,700	3,880	4,060	4,240	4,557	4,855
Conv. preferred	.....	.....	.....	.....	27,000	27,000	27,000
Common	109,275	73,352	72,223	29,435	2,257	2,000	2,000
Contributed surplus	810	758	699	621	539	422	333
Retained earnings	122,382	112,222	91,313	87,214	93,776	71,717	48,146
	711,792	671,054	606,783	570,392	537,184	422,094	354,540

*Logs, lumber, chips, market pulp and newsprint are valued at the lower of cost, determined on an average annual basis, and net realizable value. Other raw materials and operating and maintenance supplies are valued at the lower of cost, using the first-in, first-out method, and replacement value.

Commitments—A \$170,000,000 newsprint machine is being built by a subsidiary of the company. At Dec. 31, 1985, the company had commitments to this project of \$41,982,000, of which \$1,477,000, net of investment tax credits had been incurred.

Working Capital (\$000's):

Current assets	221,132	233,748	184,906	174,175	191,343	149,121	121,177
Current liabilities	75,582	82,173	50,131	65,423	47,364	34,993	29,977
Working capital	145,550	151,575	134,775	108,752	143,979	114,128	91,200
Ratio	2.93—1	2.84—1	3.69—1	2.66—1	4.04—1	4.26—1	4.04—1

Equities:

Net worth*(\$000's)	235,987	190,032	168,115	121,330	127,812	105,696	82,334
Debentures, per \$1,000	\$54,090	\$41,605	\$35,204	\$24,559	\$24,735	\$19,807	\$15,062
6 1/4% Preferred	1,676.04	1,284.00	1,083.22	747.11	753.61	579.79	423.97
Conv. preferred	.....	.....	.....	.....	45.77	37.46	28.70
Common	15.17	14.06	12.48	12.98	26.70	20.60	14.02

*Available for the capital stock; based on shareholders' equity. Debentures taken in at par for calculation of their equity. Preferred stock deducted at \$25 per share and convertible preferred stock deducted at \$10 per share before calculating equity per common share.

▲Adjusted throughout for 2-for-1 split in October, 1984.

Shares Outstanding:

6 1/4% Preferred	140,800	148,000	155,200	162,400	169,600	182,300	194,200
Conv. Preferred	.....	.....	.....	.....	2,700,000	2,700,000	2,700,000
Common	15,324,049	13,251,354	6,580,240	4,518,920	1,808,675	1,800,000	1,800,000

HISTORICAL SUMMARY

(As originally stated in company's annual reports for the respective years)

Fiscal Year	Total Assets	Net Fixed Assets	Shldrs.' Equity	Working Capital	Net Sales	Net Inc. Oper.	Earns. Per Com. Sh.	Com. Price High	Range Low
\$000's							\$	\$	\$
1946 ..	4,297	2,245	3,525	1,588		231	1.54	*24.00	*20.25
1947 ..	5,064	2,226	3,886	1,709		511	3.41	21.00	20.00
1948 ..	5,897	2,367	4,263	1,974		534	3.56	20.00	18.75
1949 ..	6,274	2,935	4,737	2,078		556	3.70	18.75	15.00
1950 ..	6,823	2,830	5,287	2,705		826	5.51	33.25	15.00
1951 ..	8,983	3,033	5,879	2,898		905	▲3.02	44.88	29.00
1952 ..	10,590	4,670	6,020	3,312		585	1.95	▲19.00	▲13.00
1953 ..	10,410	4,645	6,225	3,641		717	2.39	16.00	12.13
1954 ..	10,658	4,487	6,593	4,025		792	2.64	27.25	15.25
1955 ..	12,996	6,378	7,005	4,413		872	2.91	35.50	25.25
1956 ..	13,399	6,064	7,495	4,998		941	3.14	46.63	24.63
1957 ..	15,746	6,284	7,815	4,825		873	▲1.45	▲13.63	▲10.00
1958 ..	15,724	8,249	8,307	5,263		885	1.48	16.00	9.75
1959 ..	15,422	7,997	8,568	5,218		941	1.57	19.00	14.50
1960 ..	16,387	8,430	9,171	5,569		1,068	1.78	18.00	13.88
1961 ..	16,350	8,364	10,003	6,135		1,166	1.94	26.00	17.25
1962 ..	17,320	8,235	10,853	6,374		1,446	2.41	27.00	20.00
1963 ..	17,031	8,214	11,579	6,610		1,431	2.39	25.50	21.50
1964 ..	17,087	8,048	12,422	6,477		1,563	▲0.87	▲11.38	▲9.50
1965 ..	17,270	8,177	13,195	7,242		1,493	0.83	10.25	7.00
1966 ..	18,244	7,916	14,170	7,564		1,695	0.94	9.13	6.50
1967 ..	31,665	8,153	20,410	9,757		1,569	0.77	8.75	6.50
1968 ..	31,922	7,627	20,730	10,116		1,415	0.58	7.50	5.50
1969 ..	33,880	12,257	21,109	11,231		1,473	0.61	11.25	6.88
1970 ..	49,284	24,882	23,022	14,654		1,378	0.56	13.63	8.00
1971 ..	47,415	26,276	21,358	15,123		698	0.18	8.63	3.60
1972 ..	46,007	26,485	22,164	15,335		1,541	0.65	7.50	4.00
1973 ..	50,492	26,389	24,110	17,358		3,041	1.48	11.50	7.25
1974 ..	58,098	29,685	27,251	19,603	51,634	4,986	2.57	11.50	8.00
1975 ..	62,590	29,792	30,106	21,860	57,997	5,472	2.83	10.00	7.75
1976 ..	131,347	43,128	60,174	23,227	67,130	4,241	2.17	11.00	7.25
1977 ..	269,324	43,896	64,249	41,222	88,919	6,228	3.27	10.00	7.63
1978 ..	324,970	215,918	70,914	62,183	93,668	8,021	4.60	18.00	8.25
1979 ..	354,540	214,503	82,334	91,200	176,528	13,673	7.42	17.88	14.38
1980 ..	422,094	214,050	105,696	114,128	272,455	26,028	14.30	29.00	15.50
1981 ..	537,184	216,870	127,812	143,979	289,882	24,857	13.64	35.00	22.00
1982 ..	570,392	381,630	121,330	108,752	315,296	16,463	3.58	30.38	16.00
1983 ..	606,783	363,629	168,115	134,775	357,342	9,374	1.81	26.13	19.00
1984 ..	671,054	352,316	190,032	151,575	438,613	30,288	▲2.28	▲17.75	▲11.38
1985 ..	711,792	414,464	235,987	145,550	424,971	20,673	1.54	19.75	15.00

*Listed June 11, 1946 ▲Following 2-for-1 stock splits in December, 1951 and April, 1957; 3-for-1 split in June, 1964; and 2-for-1 split in October, 1984.

(This information is obtained from sources we believe to be reliable, but is not guaranteed)

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